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Business cash flow problem? Seven steps to failure.

You know the score. You get into a protracted cash flow crunch and the next thing that happens, the phone starts flying off the hook with incoming collection calls. Your receptionist and accounting clerk become desperate and start looking for other employment. You're too busy doing what it takes to generate revenues to devote time and energy to deal with angry collectors. And when you do talk to them, their threats and accusations leave you shaken.

When times are good, you don't think about these possibilities, which is why you're so unprepared when you get into a downturn. If I have to list the biggest mistakes I've seen good business people make when they get into financial trouble, these have to be the fatal seven:

1. Debt denial

Too many business people "forget" that they have serious issues to contend with. They're served with a lawsuit? It goes in the bottom drawer, forgotten until the Sheriff arrives at the door, gun on hip and clipboard in hand. Or they "forget" to deal with the other unpleasant reminders that they have cash flow problems.

The toughest job of all is sometimes to realize that you have to change course in order to muscle your way through the new realities that challenge your business and your livelihood.

2. Failure to Prioritize debts

Some debts can be put on the back burner; others have to be kept fairly current. Get too far behind in your building lease commitments and the landlord may file suit. And these matters generally get on the fast-track court schedule. Equipment leases can usually be given lesser priority. Unsecured debt for trade and professional services – unfortunately for the supplier – normally gets the lowest priority. You want to pay everyone on schedule but, if you cannot, you have to protect your company.

3. Not treating creditors with courtesy

It is easy to say the wrong thing to your creditor in times of stress. It is in your best interests not to let these matters get "personal." Certainly, if a valued supplier calls you, take or return the call. A personal letter can set the scene for an amicable settlement on terms to meet your needs. Many individual payable issues get to court because of personal slights. Don't let that happen to you.

4. Getting spooked by collectors

Commercial debt collectors don't have to abide by the restrained conduct required under federal legislation for those going after individuals. Many are reasonable, but some can be downright obnoxious. This is a time when you are least able to think rationally about your commitments. You have to put together and execute a debt management plan, designed to meet your own business goals and help you stay solvent. Then deal with collectors within that framework.

Collectors work on a commission basis in a confrontational environment and could care less about your business survival. Some will say anything to get you to give them a payment. Don't jump to their tune and make promises and commitments you can't keep, just because they threaten and scream at you and your staff. Knowledge is power. Recognize their motivations and limitations and work within your plan.

5. Making debt payments in the absence of a written settlement agreement

If you are struggling and a collector calls for payment, don't provide a partial payment unless it falls within the framework of an overall settlement agreement. It makes no sense and is of no help to you to send off a payment for a certain percent of the debt, when you are likely to get hounded again as soon as the check clears.

6. Becoming paralyzed by thoughts of ruined business credit

Many business owners are petrified over losing their "good" Dun & Bradstreet rating if they attempt to negotiate settlements with creditors. But it's not that important in the short term. This statement may seem absurd, because good business credit, and a good reputation, is essential. It certainly is in the long haul. But if you are late with your payables or if there have been suits filed, this and other information will already have been listed on your D&B report and elsewhere. Anyone can access that for the requisite fee. The proactive steps that you take to get out of your tough financial predicament will have a better impact on your business credit than continually trying to muddle through. And if you do nothing, notification of unsatisfied judgments on your D&B will be far worse.

7. Thinking that bankruptcy or closing the doors is your only option

Many companies close down because they simply give up. They receive bad advice or become dejected, and everyone loses out. Sometimes, of course, it's the only answer. A myriad of factors can come into play to cause your problems. But the fact is, unsecured creditors can lose everything if you go out of business. And you can go down with the ship too, if your personal assets are tied to it.

It is often far better to stay alive by reducing and restructuring your debt. It can be in your creditors' best interests to settle for a fraction of that owed, possibly paid over time, to help your firm recover and to reimburse them for at least part of their investment in it. But they won't work with you unless you tell them the facts. And to do that effectively, you have to provide them with a professionally prepared settlement proposal.

Have you ever lost out completely on getting paid because the debtor filed bankruptcy or simply closed its doors? Would you not rather have received a partial payment, or payments, to minimize your losses and possibly retain a customer into the future? Most of us would say "yes", given enough time and information to make a decision. Put yourself in the place of your creditors. Treat them as you would wish to be treated yourself. Get professional help to settle these problem debts in a way that meets your goals, and then get cracking with your business turnaround.